

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



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**Remarks by Arthur A. Garcia, Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury**

at the

**2005 CDFI Institute
Increasing Resources for Community Development Finance**

**Hyatt Regency Washington
Washington, DC**

Good afternoon! Thank you Jennifer, for your kind introduction and to all of you who have traveled to be here. I am glad to be here today to talk to you about the important activities of the CDFI Fund and to discuss President Bush's proposed Strengthening America's Communities Initiative. I want to share this initiative with you because it will touch the CDFI industry. We have tried to anticipate some of your questions by posting a set of responses to Frequently Asked Questions to the Fund's website which I hope you will find helpful.

Now, before I address the President's proposed initiative, I want to bring my message to you regarding the CDFI Fund. It is – simply put – “Business as Usual” for the remainder of the fiscal year 2005.

Let me be sure every CDFI here today understands what “Business as Usual” means. It means that the nearly \$40 million that the Fund has available for its award programs this fiscal year will be obligated toward every award program the Fund administers. “Business as Usual” means that the 52 applications we received on January 14 through the FY 2005 round of the Technical Assistance Component of the CDFI Program will be reviewed and evaluated for funding, as will the 31 applications received on February 1 for the FY 2005 round of the Native American CDFI Assistance Program.

“Business as Usual” means the Fund will review all applications received on February 14 for the nearly \$10 million available for FY 2005 Bank Enterprise awards. And, “Business as Usual” means the Fund will review all applications received on February 24 for the over

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\$26 million available for its FY 2005 round of the Financial Assistance Component. It is my expectation that the Fund has received, or will receive by the stated deadlines, sufficient quality applications so that every penny of these appropriated funds will be obligated and awarded for the important work you do in serving distressed communities and low income people throughout the country.

Those of you who have followed our funding programs this year know that both the BEA and the Financial Assistance Programs are open for applications through dates later this month. To underscore my commitment that the Fund give every opportunity for the submission of high quality applications, I have asked our staff to prepare an amendment to the Technical Assistance Component to extend the date for applications through March 7, 2005. So if you missed the first deadline for the Technical Assistance Component funding round, this is your second chance!

“Business as Usual” applies to more than the Fund’s award cycles this year. As of today the Fund has certified 740 organizations as CDFIs. “Business as Usual” means the Fund will evaluate all CDFI Certification applications it received by the January 14 deadline.

“Business and Usual” also relates to the current round of the New Markets Tax Credit Program. The Fund will soon finish its evaluation of the applications it received last fall and will announce the recipients of \$2 billion of tax credit authority later this spring. We are very proud that the 129 current allocatees -- ___ of which are CDFIs -- have collectively raised \$2 Billion in NMTC investor dollars for investment in New Markets Community Development Entities.

We want to enable CDFIs to continue to do business as usual as well. We will ask that you continue to file required reports on the loans and investments you are making and the services you are providing through the Community Investment Impact System, or CIIS. The Fund will continue to make CIIS better and easier to use – and the Fund expects to release version 3.0 of CIIS in August of this year to accomplish that. The Fund will also continue its plan to enhance its mapping capability through the CDFI Information and Mapping System, or CIMS, by updating the metropolitan area definitions as required by the Office of Management and Budget. For our Native CDFIs the Fund will continue the work it has contracted for which supports training for CDFIs and financial education among Native communities. And last, but not at all least, the Fund will go forward with its plan to complete the independent evaluation of its Financial and Technical Assistance Components as required by the President’s Management Agenda. This will supply the independent evaluation needed to demonstrate the meaningful results and impact delivered by these programs with taxpayer dollars.

I want to share with you a few examples of the work you are doing, to acknowledge what government and the private sector are able to accomplish when working together. For

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example, the Parodneck Foundation for Self-Help Housing and Community Development in New York received an award from the Fund that will help make home equity loans to senior homeowners who have been victimized by predatory lending. What could be more important than fighting the spread and burden of predatory lending affecting the most vulnerable populations?

In Vermont, the Opportunities Credit Union – which many of you know as Vermont Development Credit Union – has been making home mortgage loans for manufactured housing on a pilot basis. The Fund's award will allow it to take this product line to full production and increase the volume of home loans on one of the few types of housing that remains affordable to many low-income families in its market.

The Fund recently highlighted in its newsletter the innovative work that the Local Initiatives Support Corporation is doing in Stamford, Connecticut, not only in financing a needed childcare center in that city, but also to leverage its approach into a new state bond-financing program that has generated nearly \$50 million for 18 other projects serving 3,000 children in the state. The CDFI Fund loves leverage like this!!

I was able to see firsthand the value and impact of a recent awardee, Midwest Minnesota CDC, is having in their community when I traveled to Detroit Lakes last fall. Even operating in little old Detroit Lakes – where walleye outnumber people 2 to 1 – they have shown that you can make a huge impact. Midwest Minnesota has become one of the primary providers for USDA and Minnesota Housing Finance Authority financing in Minnesota, working with small rural banks that do not have the volume of demand to allow them to cost effectively offer USDA and MHFA's subsidized mortgage products. Midwest Minnesota is now the fifth largest underwriter for the Minnesota Housing Finance Authority and they originated 50 percent of the loans made through USDA's Guaranteed Loan program (mortgages) in Minnesota. What a success!

I applaud each of these CDFIs, and all of you, as I know you each have your own success story.

Now, I would like to turn to the President's proposed Strengthening America's Communities Initiative.

President Bush Proposes Strengthening America's Communities Initiative

- The primary goal of President's "Strengthening America's Communities Initiative" is to help communities make the transition to vibrant, strong 21st century economies, to grow the economy and focus federal economic and community development efforts on creating job opportunities for the American people.

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- To help outline this initiative, I want to briefly highlight:
 - The rationale and underlying principles behind the initiative;
 - The main points of the initiative;
 - The case for reform; and,
 - The application of the initiative

Rationale and Underlying Principles

- America's changing economy is strong and getting stronger. But during times of transition, America's economic growth is not felt equally throughout the Nation.
- President Bush believes that communities can make the transition to vibrant and strong economies because of the entrepreneurial spirit, vision, and hard work of those who live there.
- The President believes that the goal of federal economic and community development programs should be to create the conditions for economic growth, robust job creation, and livable communities, thereby reducing a community's reliance on perpetual federal assistance.
- The job of government is to inspire, to help remove barriers to growth, to be accountable for taxpayer dollars, and to ensure results for programs aimed at helping people.
- This initiative also builds on the President's Management Agenda that government should be citizen centered; results oriented; market-based; and promote innovation through competition.

Key Elements of the Initiative

Overall resources (grants, loans, and tax incentives) provided for the 35 economic and community development programs in FY 2005 were \$16.2 billion. For this same set of programs (including the new Strengthening America's Communities Grant Program, the Economic Development Challenge Fund, Opportunity Zones, and other existing Administration proposals) overall resources in the FY 2006 Budget would be \$15.5 billion -- a reduction of 4 percent. The 18 programs identified for consolidation are a subset of that group. (see attached list of programs).



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FY 2005: 35 Community and Economic Development Programs.
Total: \$16.2 billion

(each box represents one federal community or economic development program)

FY 2006: 18 Community and Economic Development Programs *(including 18 programs consolidated into 1 new program).*
Total: \$15.5 billion *(4% reduction from FY 2005)*

These 17 programs continue with existing authority and mission— some with significant budget increases.
Total budget: \$11.79 billion

These 18 programs now consolidated in one, new program, “Strengthening America’s Community Grant” program.
Total budget: \$3.71 billion

- The President’s 2006 budget proposes consolidating 18 federal economic and community development grant programs into a single \$3.71 billion unified grant-making program that will target funding to those communities most in need of assistance and achieve greater results for low-income persons and economically distressed areas.
- The new initiative will also simplify access to the federal system, set new eligibility criteria, and establish strong accountability standards, all in exchange for flexible use of funds for communities most in need. By consolidating the various programs, communities will be able to turn to one federal source for community and economic development grant programs – as opposed to 18 separate programs across five different departments.
- The consolidated and transformed program will have 2 components:
 1. The “Strengthening America’s Communities Grant Program” – a formula-based unified community and economic development grant program, and;
 2. The Economic Development Challenge Fund, a bonus program modeled after the Millennium Challenge Account.
- The combined economic and community development programs as well as the separate Opportunity Zone program will be administered by the Department of Commerce.

The Case For Reform

- In total, the federal government offers 35 community and economic development programs (including grant, loan, and tax credit programs) housed in seven different

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cabinet departments. This initiative calls for the consolidation of 18 of those 35 programs. The current roster of programs forces communities – those most in need of assistance – to navigate a federal maze of programs and departments in order to access grant programs.

“The principle here is clear: A taxpayer dollar must be spent wisely, or not at all.”

- There is a growing consensus among the nation’s leading economists and economic development researchers and practitioners; there is a need to fundamentally rethink and refocus the federal role in support of state and community efforts to promote economic growth and spur job creation in the 21st century economy. For example, last December, the U.S. Council on Competitiveness, a leading non-partisan think tank, issued a groundbreaking report, “Innovate America.” In that report, over 400 corporate and academic leaders called for the consolidation of federal development programs in order to bolster America’s competitiveness.

Application/Execution of the Initiative

- The Administration looks forward to working with stakeholders, such as CDFI, and Congress as it develops enabling legislation, which will be proposed to Congress this summer.
- When implemented, the President’s “Strengthening America’s Communities Grant Program” will ensure that the communities most in need will receive assistance to transition to a broad-based 21st century economy while at the same time ensuring federal accountability for the expenditure for taxpayer dollars.

I plan to work with my administration, members of Congress and all of you over the coming months as we together make support for community and economic development important business for our nation. And please, contact me at any time in the coming year so that we can work together to improve the communities you work so hard in every day.

Thank you.